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AGENDA ITEM 8

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** First Reading – Potential 2007 Health Program Benefit Design
- II. **PROGRAM:** Health Benefits
- III. **RECOMMENDATION:** Information Only
- IV. **BACKGROUND:**

Staff requested our contracting health plans to provide Basic plan benefit design options with two goals:

- 1) make our benefit design comparable to the industry median for large California employers and large national public agency employers, and
- 2) encourage our members to seek care in the most cost-effective, clinically beneficial setting.

Staff limited our analysis of potential benefit designs to our Basic plans because we are proposing design changes relative to Medicare Part D for our Medicare-supplement plans. Our plans provided a variety of suggested Basic plan benefit design options. Staff researched benefit design market trends and identified one option for the HMOs and an option for each PPO plan that, in our opinion, best meet the two goals. This item provides details on these benefit designs.

Potential HMO Basic Plan Design (Attachment 1)

Benefit Options

The potential plan design for the Basic HMO plans would change co-payment amounts as follows:

- **Increase co-payments for office visits from \$10 to \$15.** This change would make our office visit co-payment consistent with the HMO industry

median for large California employers and large national public agency employers.

- **Increase emergency room visits from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient), while holding the urgent care co-payment to \$25.** This change would make our emergency room co-payment consistent with the HMO industry median for large national public agency employers. In addition, the increased co-payment differential between urgent and emergency room care would provide members with a financial incentive to seek care in the most cost-effective, clinically beneficial setting. (Kaiser's urgent care co-payment is, and would remain, the same as its office visit co-payment.)
- **Introduce a hospital inpatient co-payment of \$250 and small ambulatory surgery co-payment of \$25.** Our current inpatient HMO co-payment is zero, compared to the \$250 HMO industry median for large California and national public agency employers. By introducing a modest co-payment for ambulatory surgery we attach a value to this benefit for members, while creating a differential between ambulatory surgery and inpatient surgery. This differential would provide members with a financial incentive to seek care in the most cost-effective, clinically beneficial setting.

Cost impact

To demonstrate the cost impact of this potential benefit design, we asked our plans to provide premium costs as if we had implemented this benefit design in 2006.

The Basic HMO plan design outlined above results in single-party monthly premium decreases of \$9.64 for Blue Shield, \$6.64 for Kaiser, and \$7.68 for WHA. The family monthly premium would decrease by \$25.06 for Blue Shield, \$17.27 for Kaiser, and \$19.97 for WHA. These premium decreases translate to annual Basic HMO premium savings of \$57.9 million.

Potential PPO Basic Plan Design (Attachments 2 and 3)

Benefit Options

The potential Basic plan designs for our two PPO plans include a variety of deductible options and plan management initiatives. If the Board chooses to implement the proposed PERS Select plan and make changes to the PERS Choice benefit design, the benefit design for the new plan will be consistent with the PERS Choice options described below, applied to a new physician network.

Deductible options

- **For PERS Choice and PERSCare, increase the emergency room deductible from \$50 to \$75 (waived if admitted as an inpatient or for observation as an outpatient).** This makes the PPO plan design comparable to the potential HMO design for this benefit.
- **For PERS Choice, the plan design introduces a \$250 hospital inpatient deductible per admission.** Our current PERS Choice plan design has a zero deductible for this benefit. Introducing an inpatient deductible creates a large differential between ambulatory and inpatient surgery deductibles and provides members with a financial incentive to seek care in the most cost-effective, clinically beneficial setting. There would be no change to the current 20 percent co-insurance for inpatient and ambulatory care. (The current PERSCare plan design already includes this \$250 inpatient deductible with 10 percent co-insurance.)

Plan Management Initiatives

For both Basic PPO plans, the potential benefit design would include:

- **Requiring pre-authorization for imaging services.** Research (Georgetown University study co-sponsored by Blue Cross and the California Health Care Foundation) is beginning to show that equipment ownership rather than medical necessity is driving costs associated with certain expensive radiological services such as PET, CAT, MRI. More general practitioner and varied specialty providers are offering this service at higher costs. This plan management initiative will promote appropriate utilization of this very high cost benefit. If the provider fails to follow the pre-authorization process, the provider is responsible for the resulting costs. If the member proceeds after a denial, the member is responsible for the bill. Members can appeal denials.
- **Creating an urgent care preferred network with a \$20 in-network co-payment.** Currently, members must pay the non-PPO co-insurance of 40 percent for any urgent care service, which offers little financial incentive for members to choose this lower cost care option over emergency care. Creating a PPO preferred urgent care network with a \$20 co-payment – combined with the potential \$75 emergency room deductible – provides members with a clear financial incentive to seek care in the most cost-effective, clinically beneficial setting.

For PERS Choice, the benefit design could additionally:

- **Increase the lifetime maximum benefit from \$2 million to \$5 million.** We asked Blue Cross to estimate the premium impact of this benefit in

response to a constituent's testimony before the Health Benefits Committee in April 2006. The PERS Choice Basic plan current lifetime maximum benefit is \$2 million per individual, which is consistent with the industry median for PPOs. There is no lifetime maximum benefit under the PERSCare Basic plan, and CalPERS moves PERS Choice members to PERSCare when they reach the maximum. Since January 1, 2001, CalPERS has moved five members who reached the \$2 million limit to the PERSCare Basic plan, and is tracking eight others who are approaching the limit. Based on 2006 premium rates, it would cost \$3.9 million per year to increase the lifetime maximum benefit from \$2 to \$5 million.

Cost Impact

Applying the above PPO plan designs to our current 2006 rates - and *keeping the PERS Choice lifetime maximum benefit at the current \$2 million limit* – would decrease the PERS Choice single-party monthly premium by \$2.77 and the family premium by \$7.20. The annual premium savings would be \$6.0 million.

Including the PERS Choice lifetime maximum benefit increase from \$2 to \$5 million results in single-party monthly premium decreases of \$0.76 for PERS Choice and \$2.33 for PERSCare. Family premiums would be decreased by \$1.98 for PERS Choice and \$6.06 for PERSCare. Projected over an entire year the benefit design would result in Basic PPO premium savings of \$2.1 million.

Total Program Impact for Basic Plans (Attachment 4)

Based on 2006 rates, the potential benefit design keeping the PERS Choice lifetime maximum benefit at \$2 million would result in annual total Basic plan HMO and PPO premium savings of \$64.0 million. Including the lifetime maximum benefit increase from \$2 to \$5 million decreases those savings to \$60.1 million.

The State of California and CalPERS' contracting agencies use a variety of methods to determine the employer contribution toward employee and annuitant monthly premiums. The employers' method determines who benefits from premium savings:

- For employers that contribute a percent of the total premium, both employers and employees will benefit in relation to percent each contributes toward the premium.
- For employers that contribute a flat amount that does not cover the full premium, only the employee benefits.
- For employers that contribute a flat amount that covers the full premium, only the employer benefits.

V. STRATEGIC PLAN:

This agenda item supports the Health Benefits Branch Three-Year Business Plan Goal to "develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers."

VI. RESULTS/COSTS:

The impact of implementing these health benefit design changes and plan management initiatives for our Basic HMO and PPO plans – based on 2006 premium rates – would be total annual premium savings of \$64.0 million, keeping the PERS Choice lifetime maximum benefit at \$2 million per individual (\$60.1 million if the lifetime maximum benefit is increased from \$2 to \$5 million).

The changes would also achieve CalPERS' goals to:

- make its benefit design comparable to those of similar large employers and
- encourage our members to seek the right care in the most cost-effective, clinically beneficial setting.

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Attachments